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HOW TARIFFS SHOULD NOT BE MADE

In the course of inquiries on the legislative history of the Tariff Act of 1909, I encountered some episodes characteristic of the tariff-making methods which have long been followed in the United States. These episodes will be described in the present paper. The changes in duty which resulted are not of great consequence. Most of them affect articles that are petty in comparison with the important and much debated articles. But the cases are typical and instructive. Concrete examples show better than any general statement what has been our practice in the past, and what are the reasons for substituting a procedure more open, more deliberate, more closely scanned.

Let it be recalled that during the session of 1908-09 the committees of the House and Senate followed different policies in preparing the tariff bills for the respective legislative bodies. The House Committee on Ways and Means held many hearings and printed every document submitted to it. The Senate Committee of Finance held no hearings and published nothing. No doubt the hearings before the House committee were often unprofitable, and usually were extremely wearisome to the committee members. They gave occasion, too, for much political fencing. None the less, a great mass of material useful for understanding the tariff situation was submitted, and was printed in the eight bulky volumes of Hearings; a set of documents which, it may be added, has been indexed and arranged with unusual care. And at all events the House committee proceeded openly. Just what happened in the Senate committee nobody knows. But it is an open secret that individual members were approached by influential persons interested in the tariff; that a mass of typewritten matter was submitted; and that there was expectation of considerable amendment at the hands of Senate leaders. The main difference between the procedure of the two committees—publicity in the one case, non-publicity in the other—should be borne in mind when reading what follows.

The first episode to which I shall call attention is the change in the duty on structural steel. In the preceding tariff acts (1890, 1894, and 1897) the general trend had been toward a reduction of the duties on iron and steel. The process of reduction

was continued in 1909 for most iron and steel products—for iron ore, pig iron, crude steel, steel rails. In the bill as reported by the House committee and as passed by the House, the duty on structural steel had been lowered like the rest. In 1897 it had been 5/10c. per pound; the House bill proposed 3/10c. per pound. In the bill as reported by the Senate committee the proposed duty was 4/10c. per pound. But there was also a change of phraseology. That change is indicated by the qualifying clause italicised below, which was inserted by the Senate committee.

“Beams, girders, joists, angles, channels, car-truck channels, T columns and posts or parts of sections of columns and posts, deck and bulb beams, and building forms, together with all other structural shapes of iron or steel, *not assembled, or manufactured, or advanced beyond hammering, rolling, or casting.*”

In the act as passed the duty was finally split, being fixed at 3/10c. per pound on structural steel valued up to 9/10c., and 4/10c. per pound valued at over 9/10c. The important change, however, was not in the figures, but in the insertion of the italicised clause.

The effect of the italicised clause does not appear upon the surface. No special provision is made anywhere in the act for structural steel that is “assembled or manufactured or advanced”. When the change first came to my attention, I hunted through the measure to find what was to be the duty on fabricated structural steel. (Fabricated is the trade name for structural steel that is assembled or manufactured or advanced.) Finally I came to the conclusion that it would have to come under the drag-net clause—“manufactures of iron and steel not otherwise provided for”. An inquiry addressed to Treasury officials immediately after the passage of the act brought a somewhat hesitating response, to the effect that it was supposed the fabricated steel would be dutiable under that clause, at 45 per cent ad valorem. This has been the outcome—unquestionably had in view when the qualifying clause was inserted. It appears that the duty has not been lowered, but raised. The general policy followed in the act with regard to iron and steel manufactures has in this case been reversed.

During the hearings before the House committee no one advocated an increase in the duty on structural steel. The steel manufacturers in their general arguments before the committee

expressed themselves, though not with great insistence, against reductions of duty; but they proposed no advance. Only one statement, to be noted presently, was made with specific reference to structural steel, and that was in favor of a reduction. There is not the slightest indication of what happened in the Senate committee, or what reasons were advanced in favor of the substantial increase in duty which was there provided for.¹

Having satisfied myself by the inquiry sent to the Treasury officials that the duty had in fact gone up, I endeavored to ascertain what the change meant. But letters addressed to various persons in the trade brought vague and sometimes contradictory answers.² One gentleman engaged in the manufacture of structural steel informed me that the importation of fabricated shapes was unlikely under any circumstances, except possibly from Canada. The European makers, he said, were not used to our engineering designs, and would not be likely to undertake orders for the United States. But another gentleman, also engaged in the manufacture, informed me that in times past there had been a considerable importation of fabricated steel, and that fabricated shapes alone were likely to be imported. The customs statistics show that in some previous years there have been considerable importations; and, if the second statement is accurate, the shapes imported were in the fabricated class. Still another informant, a building contractor, informed me that fabricated shapes could be made anywhere to design and could be carried to any desired spot, whether New York, Texas, South Africa, or India; they could be put together without difficulty by the engineers on the spot. Still another gentleman informed me that, although there was not in ordinary times much likelihood of importation of either fabricated or unfabricated shapes on our eastern seaboard, yet there was such a possibility at occasional times of unusually heavy demand; and even under normal conditions, cheap ocean freights made possible an importation from Europe to such places as Galveston and Puget Sound. And finally

¹ The Senate committee's amendment was accepted in the Senate itself without a word of explanation or debate. *Congressional Record*, April 22, 1909, p. 1468.

² I am not at liberty to give the names of my correspondents. The same is the case with regard to most of those with whom I communicated regarding the other changes of duty mentioned below. But I am able to vouch for the good faith of the persons who have given me information, and am confident that their statements of facts are accurate.

one of my acquaintances, much experienced in this sort of business, stated his impression that the re-arranged duty was in some way connected with a "deal" between the United States Steel Corporation and the German *Stahlwerksverband*, by which a division of the market had been arranged. It is conceivable that the higher duty might clinch such a compact, by preventing the foreigners once for all from trespassing on the Steel Corporation's domestic preserve. It is conceivable also that here is an explanation of the failure of importers to protest against the advance. The change, being proposed in the Senate bill, which was printed and widely distributed, could not fail to come to the notice of persons interested; yet no opposition seems to have been made. I was referred by a trade journal to a New York dealer, who was said to be a representative of the German steel exporters and so to be in a position to throw light on the situation. But an inquiry from this person brought a courteous answer in very vague terms, telling me only of things easily ascertained by anyone conversant with the Custom House statistics, and giving no significant information whatever.

This was the end of my inquiries. I have not been able to learn anything definite concerning the origin and the effect of this increase of duty. I suspect that, though in ordinary times there is no likelihood of an importation of fabricated steel, there is a chance of importation during rush times and at outlying districts; that the competition is not welcome to the domestic makers and particularly to the Steel Corporation; and that the change in duty was quietly arranged in order to prevent this sporadic competition. A compact between the Steel Corporation and its foreign potential competitor is entirely within the bounds of possibility. It may be that a little light is shed on the situation by the single statement made on this subject before the House committee and referred to a moment ago. A domestic purchaser of structural steel thus presented the case to the House Committee:³

"It is a well-known fact to all in the manufacturing of finished lines of the iron and steel business that outside of the United States Steel Corporation, and perhaps three or four others, there are no makers of the class of materials we use, excepting the item of plates. With but few exceptions all of the makers of this class of raw material do fabricating, i. e., putting it together in the shape of bridges, girders,

³ *Hearings before the Committee on Ways and Means*, II., 1526.

columns, and what is designated generally as fabricated work, although perhaps their aggregate tonnage in the fabricating line itself would not amount to more than one-third of the total fabricating output of the country. At present, however, with the high prices they are enabled to maintain on the material before it is fabricated, these makers are given undue advantage over those fabricators who are not makers of the material, but to whom they sell, and can make much lower prices on fabricated work, and are doing so to-day and virtually controlling the price on this class of work, the reason being that the tariff, now so excessive, enables them to make a good profit on the material as first rolled into the shapes mentioned above, so that they can afford, if necessary, virtually to throw in the fabricating for little or nothing."

The next case is of an article much less important, but again a characteristic case. A change was made in the duty on cotton gloves. Under the Dingley Act (of 1897) these had come in at a duty of 45 per cent—the drag-net clause on manufactures of cotton n. o. p.⁴ The House bill had left the duty unchanged. The bill as reported by the Senate committee to the Senate still left the duty unchanged. But in the course of action by the Senate Committee of the Whole, a new clause was inserted; cotton gloves valued between \$1.20 were to be dutiable not at the simple ad valorem rate, but at a compound rate, partly specific and partly ad valorem. In the act as passed, the Senate provision was substantially maintained. Gloves having a value of \$6.00 or less a dozen pairs, now pay a duty of fifty cents per dozen plus 40 per cent ad valorem. If valued at over \$6.00 a dozen, the duty remains ad valorem without any supplement of specific duty, but the rate goes up to 50 per cent.

It is obvious that a change made in the course of action by the Senate itself attracts less attention than one made by its Committee on Finance. The bill as prepared by the Committee is printed, and is sent to every senator and indeed to every one interested. Changes there proposed readily attract the attention of the persons concerned. But changes made by the Senate itself are carried out in the wearisome routine of the amendments, with little attention and usually with no debate. Once embodied in the bill as passed by the Senate, they can be changed only in Conference Committee—always a difficult task.

On the surface there is nothing to show what will be the effect of a change of this sort. It may or may not be of substantial importance. On cheap gloves, the insertion of the additional

⁴"Not otherwise provided for".

specific duty brings a great advance. Thus on gloves valued at one dollar a dozen the old rate was 45 per cent, that is, forty-five cents; the new rate is fifty cents plus 40 per cent, or ninety cents in all. The duty is doubled, and becomes 90 per cent on the value. On dearer gloves, the specific duty is proportionally less weighty.

In fact, it is the cheaper grade of gloves which prove to be affected. When the change attracted my attention, I wrote to persons conversant with the trade, and found a curious situation. The cheaper gloves are worth at wholesale one dollar a dozen, or thereabouts. They are imported largely from Germany. They are used for the most part by policemen, marines, and militia, for dress occasions; they are bought principally by public officials. The duty was inserted in the Senate through the activity of a person well known in the trade. He had got the ear of a New England senator, a member of the Finance Committee, who had secured for his protégé the increase of duty. An importer writes me as follows:

"For years we have bought men's and boys' cheap cotton gloves wholesale from \$1.12½ to \$1.25, from Germany, but on account of the extra special duty of 50c. per dozen, it has been absolutely impossible to continue buying these goods abroad . . . We have been obliged to place our orders with Mr. ——. He is a member of the firm of ——, who are making a very cheap domestic glove and reaping the direct benefits of the tariff which Mr. —— was instrumental in placing on these goods. He was in our store last Saturday, soliciting more business and states that he has received some very large contracts from the U. S. Army. One of his orders for this spring was for over 200,000 pairs. So that not only the public but the U. S. government is contributing to his support through the new tariff."

One of the details deserves notice. In the bill as passed by the Senate and as sent to the Conference Committee, the new rates had been made applicable to "cotton gloves" in general. But private protests to the Senator in charge did secure a modification. The language was amended, in conference, by the insertion of the words "men's and boys'". Hence gloves for women in the end came in at the old rate of 45 per cent. The Senator was able to allow this concession since it did not affect the plans of his protégé.

Now there may be good grounds of public policy for making sure that men's white cotton gloves are made at home and not imported. It may be thought humiliating for this great country that our soldiers should wear on dress occasions cheap cotton

gloves made by cheap German labor; it may even be thought that their martial spirit would be enfeebled. For myself, I am able to face the possibility without a shock to my feelings of patriotism. But it seems tolerably clear that the moving force in bringing about the new duty was not the semi-military consideration, but pressure from the interested Mr. ————. If changes in duty such as this are to be made, should they not be deliberately reported and publicly considered?⁵

The third case is that of nippers and pliers. These also had formerly been subject to a drag-net duty, as manufactures of iron and steel, at 45 per cent. The bill, as it came from the House Committee on Ways and Means and as passed by the House, made no change. As submitted to the Senate by the Senate Finance Committee, it still proposed no change. But in the course of action by the Senate itself a considerable rearrangement was made. Again there was substituted a compound duty, partly specific and partly ad valorem. Nippers and pliers were to be subject to a duty of ten cents per pound plus 40 per cent. In the act as passed the duty became eight cents per pound plus 40 per cent.

Once more I made inquiries of persons in the trade, and was informed that the duty was put in at the request of a Utica manufacturing concern. That concern had presented a statement to the House committee, which was duly printed in the Hearings,⁶ but its request for an increase of duty was not granted in the House bill. In the Senate a well-known official, not a senator, but high in the administrative hierarchy, stood sponsor for the change. The persons who protested at the last minute against the increase of duty were informed that it really was of little consequence what they might say or present. So long as this statesman was insistent in requesting the increased duty, it would remain. And remain it did. I was shown copies of some typewritten statements presented by the Utica concern to the Senate Finance Committee. They were obviously of the sort that are prepared *pro forma*; a medley of crude figures about cost of production, exaggerated statements about the dreadful low wages

⁵The amendment for the increase in this duty was offered at an evening session, as coming from the Finance Committee, and it was accepted after a very few words of debate. *Congressional Record*, June 7, 1909, pp. 2914-2915.

⁶*Hearings*, III, 2782.

in Germany, and the like, which would not stand a moment's searching analysis; such stuff as is familiar in statements made before tariff committees. All this obviously was, to repeat, *pro forma*. The moving impulse towards the higher duty was the influence of the friendly statesman, and figures and arguments for the duty had as little real influence as figures and arguments against.

Now, as to the effect. Like all the compound duties, partly specific and partly ad valorem, it bears most heavily on the cheaper classes of goods. On small nippers and pliers, light in weight, the specific duty of eight cents per pound is insignificant; these continue to be imported. The larger sizes, used for wire fencing and the like, are subject to a much higher duty, and the importation of these has declined. The domestic manufacturers have taken a larger proportion of the business. My chief informant states, however, that the Utica concern, although originally the party mainly interested, has now found competition from other manufacturers, and that the business has been distributed among various domestic producers.⁷ He writes also:

"The Utica concern is very progressive and aggressive and I believe that even if no change had been made in the schedule they would nevertheless have continued to get more and more of the trade in pliers and nippers, thereby reducing the sale of imported goods . . . The increase in the duty has of course helped them very materially, but my opinion is that in the long run they would have accomplished the same purpose, although possibly with less profit."

Of a somewhat different sort is the razor episode. Here there was public presentation of petitions to the House committee; and some advances of duty were proposed in the House bill. In the Senate a still further increase of duty was proposed, and the Senate rates in the main were enacted. The course of events is indicated in the following tabulated statement, which also indicates how complex is the system of rates. As in many other of the schedules that have reached very high rates, there is a double complication. Goods are classed according to value, the duty shifting abruptly as a given point of value (say \$1.50 a dozen for razors) is reached. Further, the duty is a compound one—so much per dozen and in addition an ad valorem rate. It will be observed

⁷ In the statement submitted by the Utica Company to the House Committee, it is said (*Hearings*, 2782): "We are the only plant in the country making no other product except nippers and pliers." A list is given of other firms "who make pliers as a side line".

DUTIES ON RAZORS 1897-1909

Act of 1897	Duties proposed in 1909		Act of 1909
	House bill	Senate bill	
Value up to \$1.50 doz. duty 50c. dozen plus 15%.	Value up to \$1.50 doz. duty 50c. dozen plus 30%.	Value under \$1.00 doz. duty 45%.	Value under \$1.00 doz. duty 35%.
		Value \$1.00 @ \$1.50 doz. duty 6c. each plus 40%.	Value \$1.00 @ \$1.50 doz. duty 5c. each plus 35%.
Value \$1.50 @ \$3.00 duty \$1.00 dozen plus 15%.	Value \$1.50 @ \$3.00 duty \$1.00 dozen plus 30%.	Value \$1.50 @ \$2.00 doz. duty 10c. each plus 40%.	Value \$1.50 @ \$2.00 doz. duty 10c. each plus 35%.
		Value over \$2.00 duty 12c. each plus 50%.	Value \$2.00 @ \$3.00 doz. duty 12c. each plus 35%.
Value over \$3.00 duty \$1.75 dozen plus 20%.	Value over \$3.00 duty \$1.75 dozen plus 30%.		Value over \$3.00 doz. duty 15c. each plus 35%.

that the Senate changed the House figures in such manner as to disguise somewhat the increase of duty. The specific rate on the cheapest razors had been in the House bill 50c. per dozen. The Senate made it 6c. each, or 72c. a dozen. On the medium grade razors the House specific rate had been \$1.00 a dozen; the Senate made it 10c. each, or \$1.20 a dozen. On the highest class of razors the House specific rate had been \$1.75 a dozen; the act finally made it 15c. each or \$1.80 a dozen. In the act as passed the Senate rates were in the main retained, but with the ad valorem duty fixed in all cases at 35 per cent. The reader will see for himself how the specific duties were rearranged in the various stages of the bill. The net outcome was a very substantial increase.

In this case there was not a little discussion. As already mentioned, the request for a higher duty was presented to the House committee and duly recorded.⁸ In the Senate there was active debate. It was to be expected, and gives no occasion for special criticism, that those who advocated an increase should put the case on the unqualified protectionist grounds. But there were some curious misstatements and misconceptions. The reader who searches in the columns of the *Congressional Record* for items regarding the economic development of the United States will find here accounts of astounding industrial reverses.⁹ It would appear

⁸ *Hearings*, 2161.

⁹ The debate is recorded in the *Congressional Record*, Senate Proceedings, May 15, 17, 18, 1909.

that a decade ago there were sixty or seventy razor factories in the United States, and that this flourishing industry had been virtually wiped out by foreign competition; the number of factories had been reduced to five! But I learn from private sources that the cataclysm has not really been so violent. Some of the domestic manufacturers, in conversation with a senator active in the debate on this subject, had informed him that a decade ago there were "six or seven" razor factories in the United States, and that the number had fallen to five! The distinguished senator had understood them to say "sixty-seven", and had so stated on the floor of the Senate.¹⁰ Having made the statement in public, he did not wish to modify it in so sweeping a way as would have been necessary to reduce sixty-seven to six or seven. Accordingly the statement remained, was repeated by other senators, and is permanently recorded in the files of the *Congressional Record*. It may happen that in coming centuries some research student of economic history will turn to these pages as "original" sources of information (not secondary sources, Heaven forbid!) and will find here unmistakable contemporary testimony of the extraordinary mutations of industry in the United States at the beginning of the twentieth century.

In its strictly economic aspect, the razor situation is in many respects curious. Some sorts of razors we export—the world-known safeties. It is obvious that, in order to export we must be able to produce them more cheaply than can foreigners. Other sorts of razors, especially the finer grade of "old-style" razors, we import in the face of high duties. Evidently the old style razors are produced more cheaply in foreign countries. They came formerly chiefly from England, but now come from Germany. It was the dreadful Germans and their deadly cheap wages which were chiefly referred to in the Senate debates.

These cross-currents in the importations and exportations of razors are in line with similar cross-currents as to other sorts of hardware. In general, we export rather than import finished iron and steel goods. We export builders' hardware, such as hinges, locks, door knobs, machinery and machine tools, locomotives, agricultural implements, and the like. On the other hand, we import many pocket-knives (though in recent years more and more pocket-knives, especially of medium grades, have been manufactured in this country), and a miscellaneous assortment of

¹⁰ *Congressional Record*, 2165, 2180, 2221.

anchors, chains, tools, machines. The explanation which I am disposed to apply to these apparently anomalous juxtapositions of imports and exports, is that things made by machinery are likely to be made in this country and even to be exported, whereas those made by artisan labor are likely to be imported. When it comes to turning out by machinery, on a large scale, great quantities of goods of a standard pattern, we need not fear foreign rivals. For this sort of thing, we have, in the language of the economists, a comparative advantage. Notwithstanding dearer labor, we can turn out the product as cheaply as the European rival, even more cheaply. But when it comes to articles made by hand labor, the European who gets his labor at a cheaper rate can undersell us.

This sort of reasoning had seemed applicable in explanation of the continued importation of old-style razors. I still believe that in general the explanation is a good one. It accounts in the main for these peculiarities in our international trade; it explains why some articles are imported, and others, apparently like them, are not imported, and even are exported. But on inquiry of persons engaged both in the importation and in the manufacture of razors, I find that the facts do not fit into the reasoning, so far as this particular article is concerned. It appears that in former times razors came chiefly from England. There they were made by skilful artisans, and in the main by hand labor. The Sheffield grinder put the edge on each individual blade by hand, on varying sizes of small stones. But of late razors have come more and more from Germany, and my informant writes as follows:

In this particular industry the Germans have decidedly taken a leaf out of our book. While we have been struggling along, trying to make razors under the old English methods (with a few—but very few—modern appliances), they have gone ahead and comparatively revolutionized the methods; introduced new ways for forging the blades, and above all things, invented and put into satisfactory operation grinding machines which have enabled them not only to manufacture razors at a very low cost of production, but to produce a quality and uniformity of goods with which we simply cannot compete.

It would seem that the Americans for once have been backward. Apparently what the domestic producers of razors really need is not higher duties but greater enterprise and skill. A demand for extreme duties is always suspicious. In this case, as in so many

others on our present tariff list, the combination of specific and ad valorem rates conceals, and at the same time achieves, duties of from 75 to 100 per cent. Where the domestic producers ask for so great a handicap on their foreign competitors, the presumption is against them. Either they are trying to do work for which our resources and our ways are not fitted, or else (as seems here to be the case), they are not abreast of progress in their own industry.

Returning now to such cases as were first considered—structural steel, cotton gloves, nippers and pliers—we have two questions to consider. The first relates to the expediency of the advances in duty; the second to the methods by which the advances were brought about.

On the first question, the answer must turn chiefly on one's opinions regarding the advantages or disadvantages of protective duties. The convinced protectionist will believe that the domestic production of these several articles is desirable *per se*. A check to imports always brings advantage to the country. Whatever duties are necessary in order to "acquire" a new industry are justified.

And on the second question also, one's attitude toward the fundamental question affects the answer. The protectionist will be likely to say: This is simply the way of the world, or at least the way of the world in the United States. Our legislative methods are in every direction unsystematic and irresponsible. Tariff bills are inevitably dealt with as are river and harbor bills and general appropriation bills. The only way in which a desired result can be brought about has been through the influence of individual legislators and in the traditional ways. We cannot escape log rolling, private interviews with influential politicians, settlement of details in quiet committee meetings.

The opponent of protection, on the other hand, will smell corruption. Probably he is mistaken in this score. The legislators have a pecuniary stake in the rarest of cases. The only sort of "corruption" that plays any considerable part is that of contributions to party chests; and the persons who make such contributions, as well as those who receive them, may maintain in good faith, that the funds are used in the promotion of a policy believed to be sound, not only by themselves, but by the majority of the voters.

None the less, and quite apart from any questions of private interests, there seems now to be a conviction that our legislative methods should be changed so far as the tariff is concerned. Whatever may have been the inevitable methods of the past, a more open and deliberate procedure should be followed in the future. It may be a question how far the reaction against protectionism which seemed to show itself in the recent elections, stands for a permanent change in the public's attitude. Very possibly it is only a blind revolt, holding the party in power responsible for high prices, depression in business, and all other things unwelcome. But there is a general belief that the country should know more about the details of tariff legislation, and should know about them in advance. If increases of duty are to be made, let them be made openly, and let the reasons be stated. If a domestic producer is to be helped by a handicap on foreign competitors, let it be made clear from the start just what is to be done for him and just what a given tariff provision means. Let there be no more jokers.

Further, there is a strong conviction that inquiry should be made and publicity should be secured through some agency other than the House and Senate committees. These have an extraordinary multiplicity of details to consider. They are so wearied by prolonged and repeated hearings, crowded into a few weeks, that it is impossible for them to give serious attention to all the matters presented. It is not to be wondered at that the Senate committee refused to have public sessions. The House committee, which had much more time for preparation, was almost swamped by its hearings. The Senate committee, which of necessity had less time, naturally felt that it would be swamped once for all. But this situation, perhaps making star chamber procedure inevitable gives opportunity for covert changes, for concealed pressure from private interests, for irresponsible legislation. Hence the demand for some permanent body, equipped to make investigation, and to make a judicial report as to the significance of proposed changes. Such cases as have been considered in the preceding pages show how tariffs should not be made.

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